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SUBJECT: PERU TRADE & INVESTMENT BRIEFS

SUMMARY

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11. This is an update on the following trade and investment news from Peru:

- Record Imports & Exports
- Peru Joins OECD Declaration on Investment
- IMF's Valdivieso Named Minister of Economy & Finance
- Chinese Trade Negotiations & Investment Accelerating
- Central Bank Fights Inflation
- Japanese Business Interest
- Chilean Investors Love Peru
- Investment Agreement with Belgium & Luxembourg
- Argentines Hope to Use PTPA
- Grape Exports Double

End Summary.

Record Increases in Imports

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12. Peru imported \$2.89 billion of goods in June, \$2.87 billion in July, and \$2.61 billion in August -- all record monthly highs. The huge increases included capital goods, construction materials, goods for consumption, and primary and intermediate goods. Capital goods and construction materials accounted for almost a third of imports, and primary agricultural material imports were over 150% higher than in the same months in 2007. Much of these goods are destined for production, reflecting booming investment in Peru. Peru imported over \$17 billion in goods during the first seven months of the year, a 60% increase relative to the first seven months of 2007. The United States continues to be the top source country. While Peru still has a positive trade balance, imports are growing at a much faster rate than exports.

And Continued Export Records

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13. Exports totaled \$2.994 billion in July, 12.4% higher than in July 2007. Traditional exports amounted to \$2.334 billion (11.1% increase), while non-traditional goods were at \$660 million (17.2% increase). For the first seven months of 2007, total exports were \$18.958 billion, a 25.7% increase with respect to the same period in 12007. So far this year, Peru has exported to 168 markets, with 90 importing over \$1 million. The US leads importation of Peruvian goods at 18.8%, with China following (11.7%). The Peruvian Exporters' Association (ADEX) noted that 60% of Peru's exports were through either Jorge Chavez airport or the Port of Callao (both in Lima area), indicating a need to create more shipping hubs.

Peru Joins OECD Declaration on Investment

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¶4. Peru became the 41st country to join the OECD's Declaration on International Investment and Multinational Enterprises. This is in recognition of the GOP's attempts and policies to promote business and investment. Subsequently, Peru was accepted as a member of the investment committee of the OECD, a move that Trade Minister Araoz believes reflects Peru's recently earned investment grade rating (from both Fitch and Standard & Poor's).

#### New Minister of Economy & Finance

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¶5. Luis Valdivieso, fresh from 28 years at the IMF, has replaced Luis Carranza as Minister of Economy and Finance. Valdivieso has a PhD and MA in Economics from Boston University and hopes to spread the benefits of Peru's current economic boom to all Peruvians. However, rising inflation and the global financial crisis have forced the MEF to look for ways to cut spending. Carranza steps down after two years as Minister. He leaves a legacy of foreign debt reduction and business-friendly policies. Valdivieso named Eduardo Moron, from the Economic Department of Peru's respected Catholic University and a PhD from UCLA, as Vice Minister of Economy.

#### Chinese Trade Negotiations & Investment Accelerating

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¶6. The Peruvian Trade Ministry continues to move forward on its partial trade agreement with China, and is working hard to reduce the number of Chinese products excluded from the deal. It now appears the agreement may not be ready in time for the APEC leaders' summit in November. The Peru-China Chamber of Commerce (Capechi) believes that the increasing partnership between the two countries

LIMA 00001616 002 OF 002

may lead to Chinese investment of nearly \$1 billion next year. Chinese companies have begun investing in mining and minerals, and through APEC there is room to grow. Peru will have a delegation present at next year's China-Latin America Business Summit (in China).

#### Central Bank Tries to Tame Inflation

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¶7. The Central Bank (BCRP) continues to raise its benchmark interest rate to fight inflation. Ending 2007 at 5.0%, the gradually climbing rate reached 6.5% on September 11. While Peru's GDP grew by 9% in 2007 with only 2% inflation, global oil and food prices, booming internal demand and increased spending by regional and local governments have led to a projected inflation rate of above 6% in 2008, with GDP growth above 9%.

#### Japanese Could Invest \$800 million

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¶8. Yoshinori Takase, President of the Peruvian-Japanese Chamber of Commerce and Industry, believes that Peru's economic growth, low inflation and natural resources continue to make it a good place for Japanese business and estimates that they will invest up to \$800 million in Peru this year. Japanese stakes in Peruvian mining have increased recently, and Takase said that Japanese businesses strongly support the free trade agreement that Peru and Japan hope to conclude in 2009. Peru hopes to finalize investment agreements with Japan and Korea in September in hopes of announcements at the APEC leaders' meeting in November 2008.

#### Peru Is Top Recipient of Chilean Investment

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¶9. Over the first half of the year, new Chilean investment in Peru totaled \$502 million or 27% of total Chile's total foreign investment. This represents an 89% increase over the same period in 2007. Peru receives 38% of Chilean retail investments and 78% of real estate and construction investments. During the past year, total Chilean business investments increased 41%, reaching \$1.87 billion.

#### Investment Agreement with Belgium & Luxembourg

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¶10. On August 12, Peru, Belgium and Luxembourg ratified an

Agreement for the Promotion and Reciprocal Protection of Investments, signed in October of 2005. The agreement had been approved in Peru in 2006, Belgium in 2007, and Luxembourg in 2008.

#### Argentina Sees PTPA Opportunities

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¶11. During a recent visit to Peru, Argentine Secretary of External Relations Victorio Taccetti noted the potential for economic partnerships between Argentina and Peru. Argentina hopes that through investments in Peru, Argentine businesses can gain entry into the U.S. market. There are currently at least 60 Argentine businesses located in Peru, including the large presence of gas and oil company Pluspetrol.

#### Grape Exports Double

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¶12. Over the first half of 2008, Peruvian grape exports increased by 99.3% with respect to the same period in 2007, amounting to \$42.64 million. PromPeru, the Peruvian trade and tourism promotion agency, believes that Peru has gained a comparative advantage over other grape exporters by launching its export campaigns earlier, taking advantage of the fall and winter holidays and increased international prices. PromPeru estimates that the growth rate will continue to rise over the second half of the year.

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